

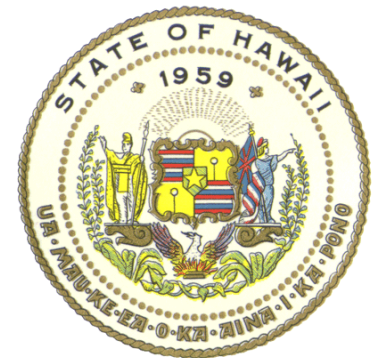
State of Hawai‘i

General Obligation Bonds of 2016

\$676,045,000*

Investor Presentation

September 19, 2016



*Preliminary, subject to change

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Presentation Participants

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Director

Hawai'i Department of Budget and Finance

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Hawai'i Department of Business, Economic Development and Tourism

Tim Rattigan

Managing Director

Citigroup

Transaction Summary

Issuer:	State of Hawai‘i
Offering:	General Obligation Bonds of 2016
Estimated Par Amount:	\$676,045,000*, consisting of the Series FG, FH, FI, and FJ Bonds
Financing Structure:	<p>All Fixed Rate Serial Bonds*</p> <p>Series FG (\$375,000,000): October 2019-2036</p> <p>Series FH (\$273,465,000): October 2021-2031</p> <p>Series FI (\$2,580,000): October 2021-2033</p> <p>Series FJ (\$25,000,000): October 2018-2022</p>
Tax Status:	<p>Series FG, FH, and FI: Federal and State Tax-Exempt</p> <p>Series FJ: Federally Taxable and State Tax-Exempt</p>
Security:	Full Faith and Credit of the State of Hawai‘i
Call Provisions:	TBD
Ratings:	S&P: AA+ (Stable) Moody’s: Aa1 (Stable) Fitch: AA (Stable)
Use of Proceeds:	<p>Series FG and FJ: New money bonds for general governmental use</p> <p>Series FH and FI: To refund outstanding G.O. bonds for savings</p>
Senior Manager:	Citigroup
Co-Senior Managers:	Bank of America Merrill Lynch, Morgan Stanley
Pricing:	<p>Retail Order Period: September 28, 2016*</p> <p>Institutional Order Period: September 29, 2016*</p>
Closing:	October 13, 2016*

* Preliminary, subject to change

Positive Developments Since Last Bond Sale

The State continues to demonstrate strength and progress in key credit areas

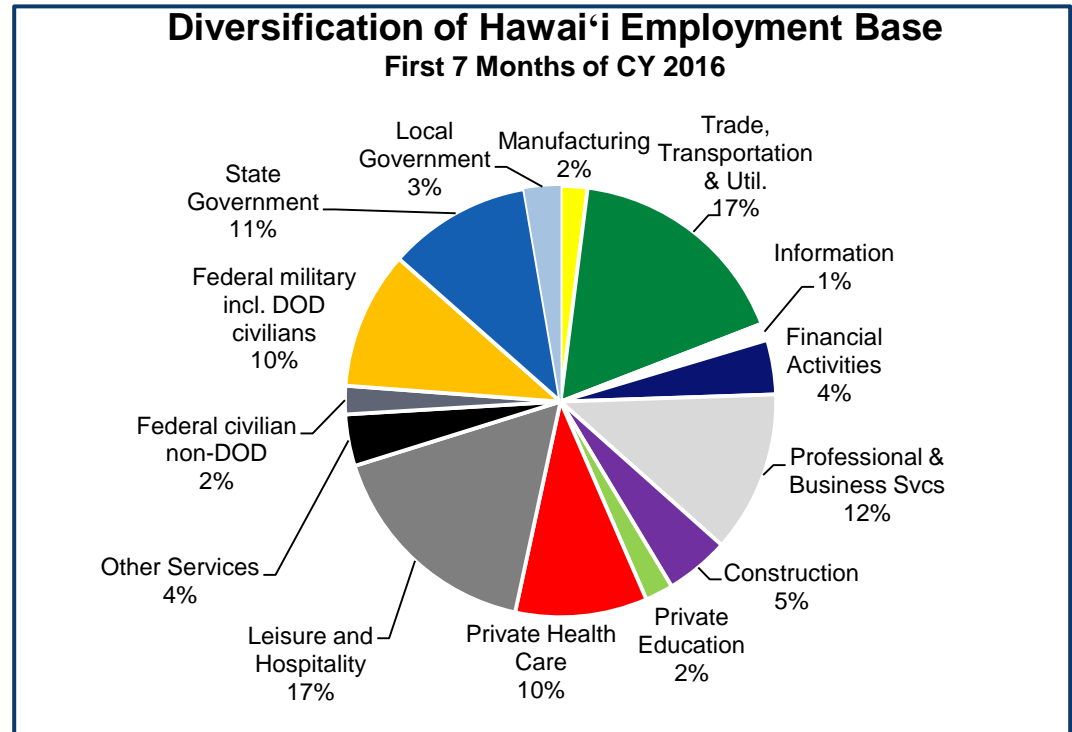
➤ Further strength in economy	<ul style="list-style-type: none">➤ Labor force, employment and jobs are at record levels and unemployment rate as of July 2016 is 3.3%, the 4th lowest in the U.S.➤ Visitor arrivals are at record levels thus far in 2016 (up 2.5% through July), yet tourism accounts for just 17% of overall economic activity
➤ Stronger than expected revenue growth for FY 2016, leading to significantly greater fund balances for Financial Plan	<ul style="list-style-type: none">➤ Preliminary FY 2016 revenues were up 8.0%, versus Council on Revenues forecast of 6.1%➤ Higher FY 2016 revenues and recently updated revenue forecast estimated to increase General Fund Financial Plan ending balance in FY 2021 by an additional \$1.2 billion➤ The new Financial Plan ending balance in FY 2021 is now projected to be \$2.4 billion
➤ Greater acceleration in OPEB funding and continued commitment to pension obligations	<ul style="list-style-type: none">➤ In FY 2016, State exceeded pre-funding requirement of \$163 million by \$86 million➤ By the end of FY 2017, the State will have contributed \$800 million towards OPEB pre-funding, \$323 million more than required by Act 268 passed in 2013➤ Continued adherence to pension reforms and proposed pension legislation being developed
➤ Accelerated contributions to State reserves	<ul style="list-style-type: none">➤ \$201.4 million to be deposited in the Emergency Budget Reserve Fund ("EBRF") in FY 2017➤ FY 2016 ending General Fund balance plus reserve fund equal to 17.16% of prior fiscal year's revenues
➤ Completion of formal reserve policies and nearing completion of broader debt policies and Statewide Debt Affordability Study	<ul style="list-style-type: none">➤ Recently institutionalized policies for State reserve targets➤ Legislatively-mandated Debt Policies and Debt Affordability Study to be completed by end of 2016

Vibrant and Diversified Economy

The State's labor market is one of the strongest in the nation

- Unemployment rate of 3.3% as of July 2016 was the 4th lowest in the nation
- Hawai'i's labor force, employment and jobs reached record levels during the first seven months of 2016
- Wage and salary job count grew 1.5% in 2015, and has grown 2.1% through July 2016 (well above projected 2016 growth of 1.8%)
- The State's economy continues to diversify (see chart to the right)
 - Recently strong growth in Private Health Care and Professional and Business Services

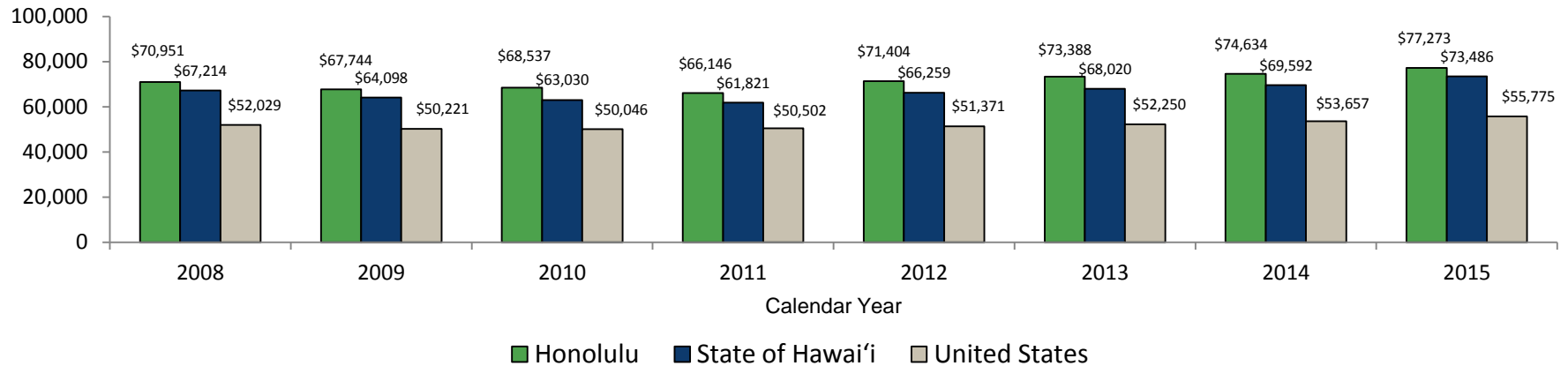
- Further evidence of diversification is demonstrated by the fact that tourism now accounts for only 17% of State GDP, as compared to 33% in 1988



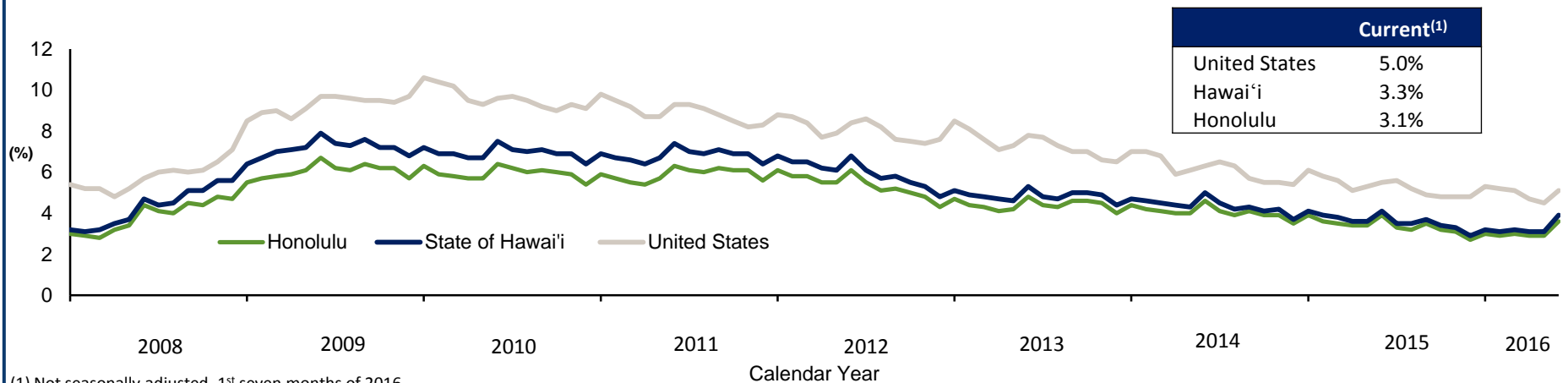
Labor Market Update

The State's income levels remain robust and unemployment rates remain well below the U.S. average

Median Household Income (2008 to 2015)



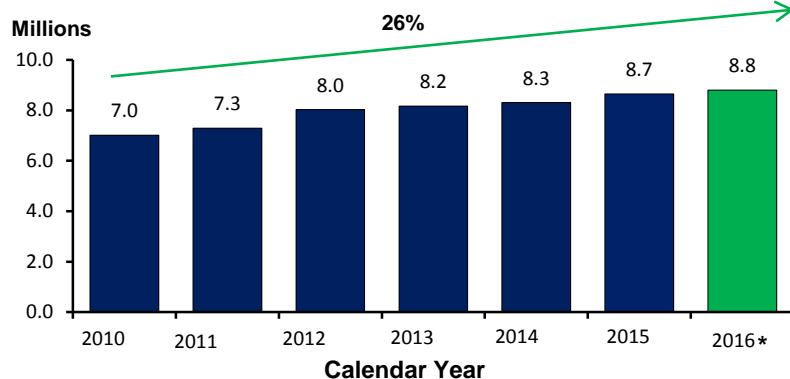
Historical Unemployment Rates (2008 to Present)



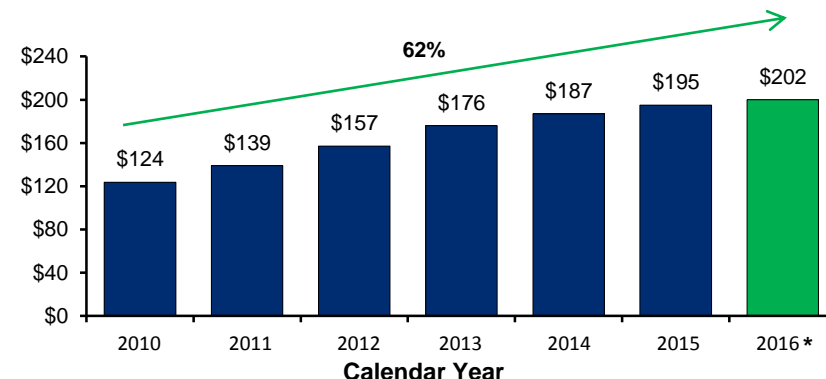
Tourism Statistics

All key tourism metrics continue to reach record levels

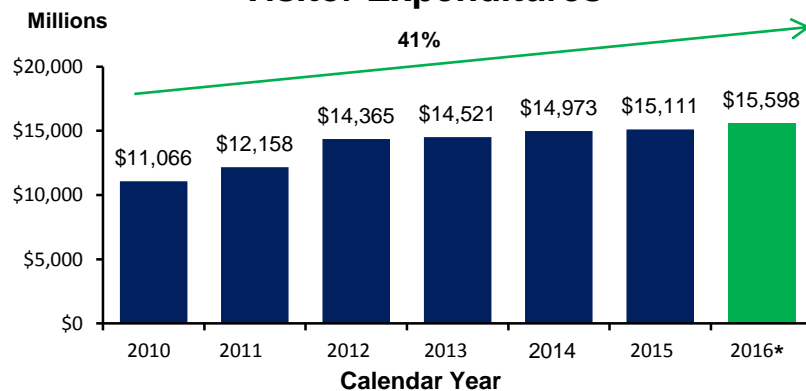
Visitor Arrivals



Revenue Per Available Room



Visitor Expenditures



Visitor Diversification (Air Only)

Region	2006 Arrivals	% of Total	2015 Arrivals	% of Total
US Mainland	5,173,624	68.7	5,307,045	62.2
Japan	1,362,878	18.1	1,499,167	17.6
Canada	280,920	3.7	517,238	6.1
Others	375,753	5.0	353,897	4.1
Australia	117,043	1.6	333,998	3.9
China	54,924	0.7	179,868	2.1
Korea	37,912	0.5	171,524	2.0
Europe	106,032	1.4	143,435	1.7
Latin America	19,020	0.3	27,806	0.3
Total	7,528,106	100.0	8,533,978	100.0

Pension System Overview and Update

FY 2016 returns had minimal negative impact on Employees' Retirement System ("ERS") funding levels as longer trend on improving funding levels continues

ERS Total Valuation Summary

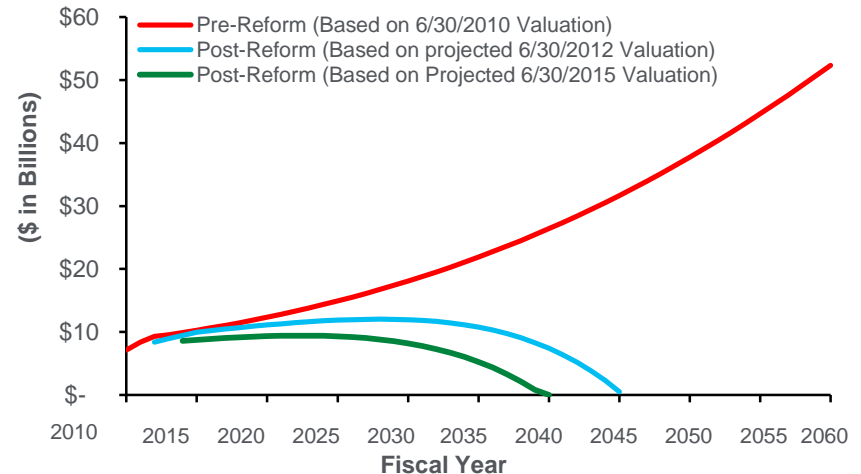
(\$Millions)	FY 2014	FY 2015
Total Assets		
Market Value	\$14,203	\$14,505
Actuarial Value	\$13,641	\$14,464
Actuarial Accrued Liability	\$22,220	\$23,238
UAAL		
Market Value	\$8,017	\$8,733
Actuarial Value	\$8,578	\$8,775
Funded Ratio		
Market Value	63.90%	62.40%
Actuarial Value	61.40%	62.20%
Investment Return Assumptions:		
Funding Period (Years)	26	26
Members		
Active	67,206	67,310
Retired & Beneficiaries	43,087	44,283
Employer Contribution Rate	17.28%	17.89%
Employer Contributions	\$653	\$718

- Next actuarial report expected by January 2017
- Shifting from equal monthly payments to a single payment at the beginning of each fiscal year is estimated to reduce the UAAL between \$180 million to \$260 million over a 10-year period

Preliminary 2016 Returns

- Preliminary FY 2016 returns were -0.9%, well below actuarial assumptions but consistent with other national pension returns
 - Estimated funded ratio of approximately 61.7%
 - Smoothing will help in setting employer contribution rates for future years
 - Further, ERS actions to lower assumed actuarial rates will benefit the System long-term
- ERS return has averaged 8.4% over the past four years and 7.7% since inception in 1990

UAAL



Pension Reforms

In recent years, the State has put in place numerous reforms to improve pension funding and those efforts are continuing

Benefit Cost Reductions	<ul style="list-style-type: none">▪ New benefit tier for employees hired after June 30, 2012▪ Eliminated inclusion of overtime in pension calculation for employees hired after June 30, 2012▪ Implemented anti-spiking provisions▪ Lower earnings rate from 4.5% to 2% credited to employee contributions
Increased Employer Contributions	<ul style="list-style-type: none">▪ Contribution rates increased in steps to 25% for public safety and 17% for general employees
More Conservative Actuarial Assumptions	<ul style="list-style-type: none">▪ Reduced assumed investment yield rate from 7.75% to 7.65% for the FY 2015 valuation▪ Rate was further reduced to 7.55% in FY 2016 and 7.50% in FY 2017
Advanced State Contributions	<ul style="list-style-type: none">▪ As of December 2015, the ERS reports that the single payment made by the State for FY 2016 resulted in an increase of \$11 million to the pension trust fund and reduced the UAAL by the same amount▪ The State has already made its full payment for FY 2017
Reduced Benefit Costs for New Employees and Higher Contribution Rates	<ul style="list-style-type: none">▪ Reduced benefit costs for new employees and higher contribution rates will accelerate the expected amortization of the unfunded liability▪ Employees subject to the new benefit tier are projected to represent 50% of the total active ERS membership by 2021 and 75% by 2026

Chronology of Increased OPEB Funding Actions

The State continues to be at the national forefront of OPEB funding efforts, and has contributed or appropriated \$800 million towards pre-funding through FY 2017

- **2013** – Act 268, SLH 2013 was enacted to require phase-in of contributions beginning in FY 2015 to fund full ARC by FY 2019
- **2014** – In advance of the required contribution in FY 2015, the State began pre-funding contributions in FY 2014 with \$100 million which is expected to reduce future contribution requirements by approximately \$250 million over the next 25 years
- **2015 to 2017** – The State exceeded its combined pre-funding requirement of \$476.8 million by contributing an additional \$223.5 million during those three years
- **2018** – The State will be proposing to exceed its prefunding requirement of \$297.0 million by an additional \$74.3 million (\$371.3 million total payment in FY 2018)
 - This proposed funding amount for FY 2018 will allow the State to meet, and actually exceed, the 100% ARC pre-funding requirements one year in advance of the requirement of Act 268 to achieve full ARC funding by FY 2019

Detailed Breakdown of the State's OPEB Pre-Funding

FY	Act 268 Prefunding Requirement %	Act 268 Prefunding Requirement \$	Additional Contribution	Total Prefunding Contribution*	% Funded vs Requirement
2014	N/A	N/A	\$100,000,000	\$100,000,000	N/A
2015	20%	82,990,000	34,410,000	117,400,000	141%
2016	40%	163,615,000	86,212,434	249,827,434	153%
2017	60%	230,185,000	102,864,894	333,049,894	145%
2018	80%	297,063,000	74,266,000	371,329,000	125%
2019	100%	375,174,000	TBD	TBD	100%+

*Fiscal years 2014, 2015 and 2016 are actual, 2017 is appropriated and 2018 and 2019 are projected and included in the State's General Fund Financial Plan

Chronology of Increased OPEB Funding Actions (cont.)

The requirements of Act 268, SLH 2013 and additional State contributions are estimated to realize approximately \$1.6 billion in contribution savings over the next 20 years

➤ Pre-funding contributions required by Act 268, SLH 2013

- FY 2015: \$82.9 million
- FY 2016: \$163.6 million
- FY 2017: \$230.2 million
- Total: \$476.8 million

➤ Additional pre-funding contribution actions initiated by the Governor and authorized by the Legislature in the Budget

- FY 2014: \$100 million
- FY 2015: \$34.4 million
- FY 2017: \$102.9 million
- Total: \$237.3 million

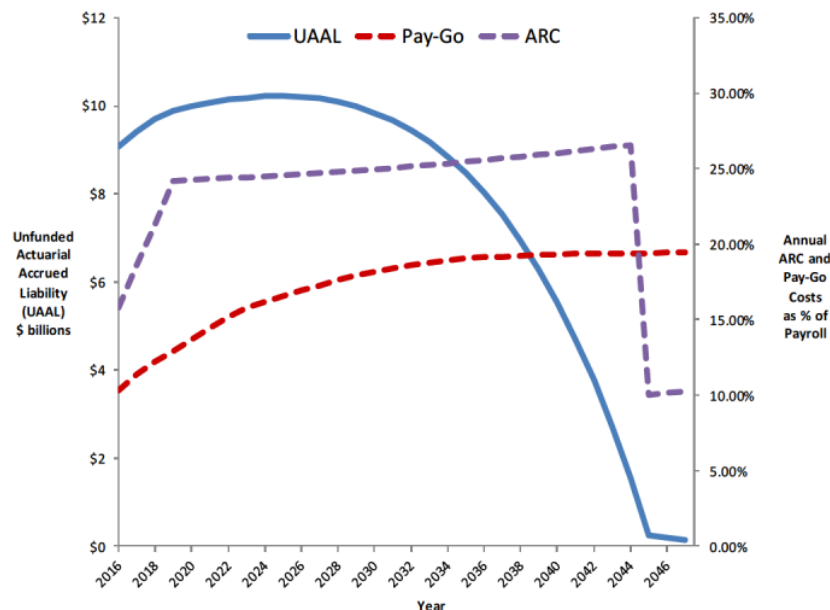
➤ Additional pre-funding contribution actions executed administratively

- FY 2016: \$86.2 million

➤ Total estimated future contribution savings over next 20 years

- From pre-funding contributions required by Act 268, SLH 2013: **\$900 million**
- From pre-funding contribution actions initiated by Governor and authorized by Legislature: **\$450 million**
- From pre-funding contribution actions executed administratively: **\$160 million**
- From paying contributions at beginning of each fiscal year: **\$110 million**
- Total Estimated Future Contribution Savings: **\$1.6 billion**

Minimum OPEB Contribution Required by ACT 268

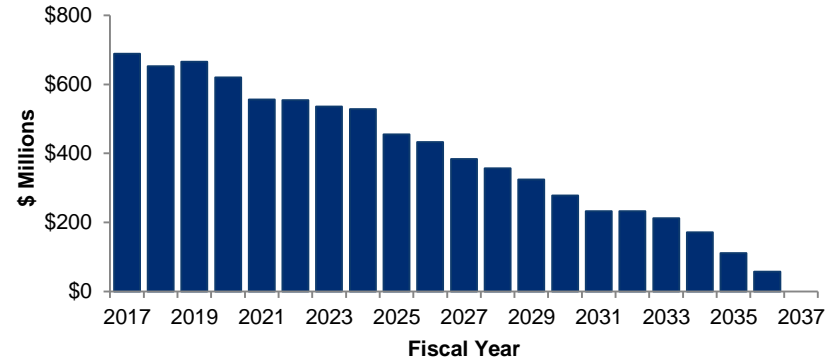


Conservative Debt Management Practices

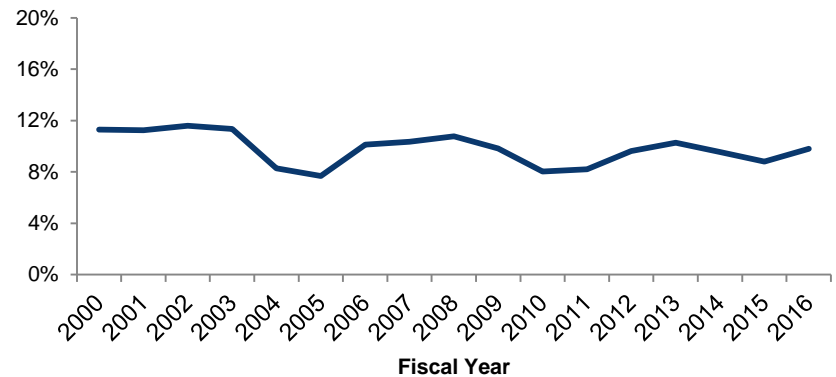
The State has a long track record of conservative debt management practices

- G.O. Bonds carry pledge of full faith, credit and resources of the State
 - Bonds have a first charge on all General Fund resources
- State's G.O. Bonds have conservative Constitutional constraints
 - Limits final maturity to 25 years and ability to defer amortization to 5 years
 - Requires level debt service or level principal amortization
- The State conservatively manages its debt portfolio
 - Bonds issued with 20 year maturity and level debt service
 - 100% fixed rate debt with no derivatives
 - 63% of principal amortizes over the next 10 years and 86% in 15 years (prior to the 2016 financing)
- G.O. debt service as a percentage of General Fund revenues has been relatively constant across multiple economic cycles

G.O. Debt Service Profile (As of September 2016)



Debt Service as % of General Fund Revenues⁽¹⁾



(1) FY 2016 based on Council on Revenues preliminary actual General Fund revenues.

Proactive Fiscal Management Supports Strong Performance

The State has utilized its authority effectively to manage its fiscal position

➤ Budget Authority

- Balanced budget requirement
- Biennial budgeting process with supplemental budget adjustments (majority vote required for budget passage)
- Governor has executive powers to restrict spending during the Fiscal Year
- Legislature has autonomous control over taxes, with most adjustments requiring a simple majority vote
- No Statewide ballot initiatives

➤ Financial Planning

- Six-year financial plan enhances transparency and ability to anticipate and proactively adjust spending and revenue
- Quarterly forecasts by the independent Council on Revenues support both intra year adjustments and long-term planning
- Timely financial reporting

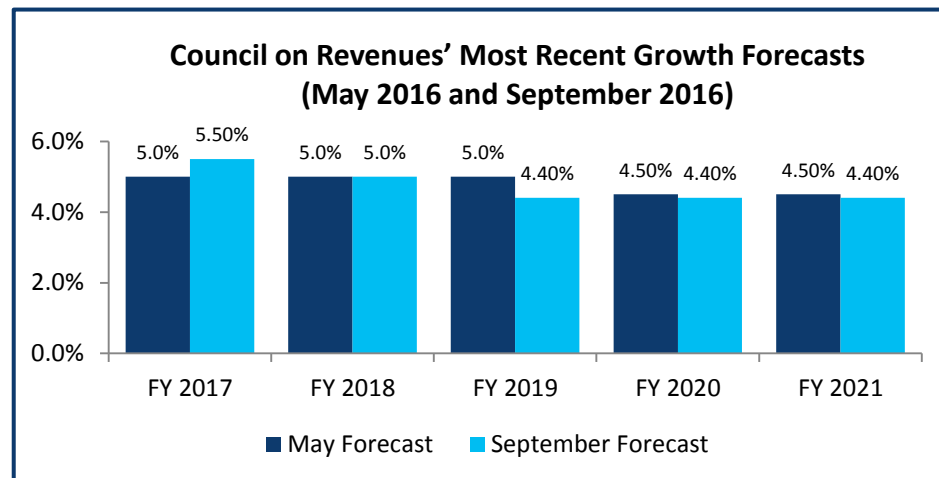
➤ Debt Practices

- Debt repayment is a first priority under State Constitution
- Constitutional debt limit restricts maximum annual debt service to no more than 18.5% of the average of three year prior General Fund revenue
- Debt Management Policy and Debt Affordability Study are to be issued later in FY 2017 (Act 149, SLH 2015)

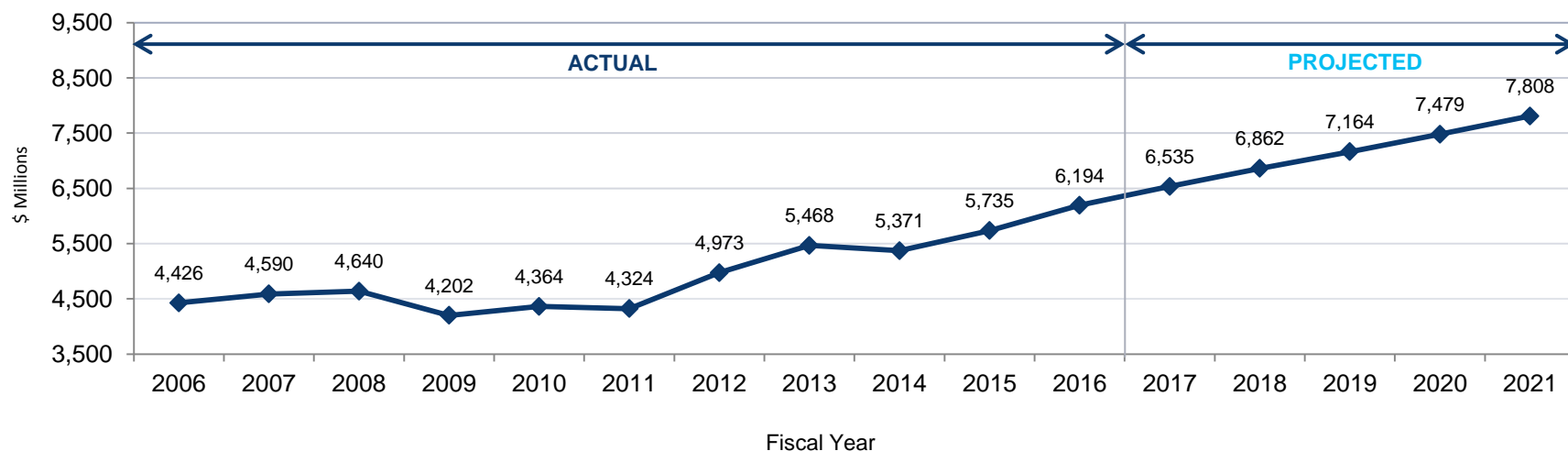
Independent Council on Revenues

The Council on Revenues continues to project robust economic growth

- In May 2016, the Council lowered its growth rate for FY 2016 from 6.7% to 6.1% and maintained its March 2016 Forecast for FY 2017 through FY 2021
 - Actual FY 2016 revenues were up 8.0%
 - Actual FY 2016 revenues over forecast projected to increase General Fund ending balance in FY 2021 by \$1.2 billion
- On September 2, 2016 the Council released its most recent Quarterly Forecast:
 - Cumulative impact of Council's revised forecast is an increase in FY 2021 General Fund ending balance of approximately \$65 million



Historical Council on Revenues General Fund Tax Only Revenue Collections & Projections



General Fund Financial Plan Update¹ (Based Upon September 2016 Forecast)

(\$millions)	Actual FY 15	Prel. Actual FY 16	Estimated FY 17	Estimated FY 18	Estimated FY 19	Estimated FY 20	Estimated FY 21
Total Revenues^{2,3}	6,576.7	7,081.9	7,354.8	7,649.7	7,970.6	8,305.3	8,655.6
Total Expenditures⁴	\$6,413.4	\$6,882.2	\$7,723.0	\$7,412.0	\$7,616.5	\$7,796.0	\$7,927.0
Revenue Over (Under) Expenditures	\$163.3	\$199.7	(368.2)	\$237.8	\$354.1	\$509.4	\$728.6
Carry-Over Balance (Deficit)							
Beginning	\$664.8	\$828.1	\$1,027.8	\$659.6	\$897.4	\$1,251.5	\$1,760.8
Ending	\$828.1	\$1,027.8	\$659.6	\$897.4	\$1,251.5	\$1,760.8	\$2,489.5
Ending Fund Balance (% of Prior Year Revenues)	13.58%	15.63%	9.31%	12.20%	16.36%	22.09%	29.97%

- Six-year Financial Plan enhances transparency and ability to anticipate and proactively adjust spending and revenue
 - Adjustments are made for large-scale line items such as pension, health care and debt service costs
 - All other costs are held static
- Planned drawdown of FY 2017 ending balance is primarily due to the following one-time expenditures:
 - \$201 million of additional EBRF funding
 - \$100 million for air conditioning throughout Hawai'i schools
 - \$104 million write-off for Kapalama Military Reservation and Hawai'i Health System Corporation debt
 - Additional discretionary OPEB payments of \$102.9 million

(1) Unaudited. The State's cash-basis statements are not directly comparable with the State's audited financial statements, which are modified accrual basis

(2) Reflects preliminary actual FY 2016 revenue collections as reported by the Department of Accounting and General Services

(3) Reflects FY 2017 - 2021 Council on Revenues' September 2016 projections updated with FY 2016 revenue collections

(4) Reflects specific appropriations from 2012-2016 legislative sessions

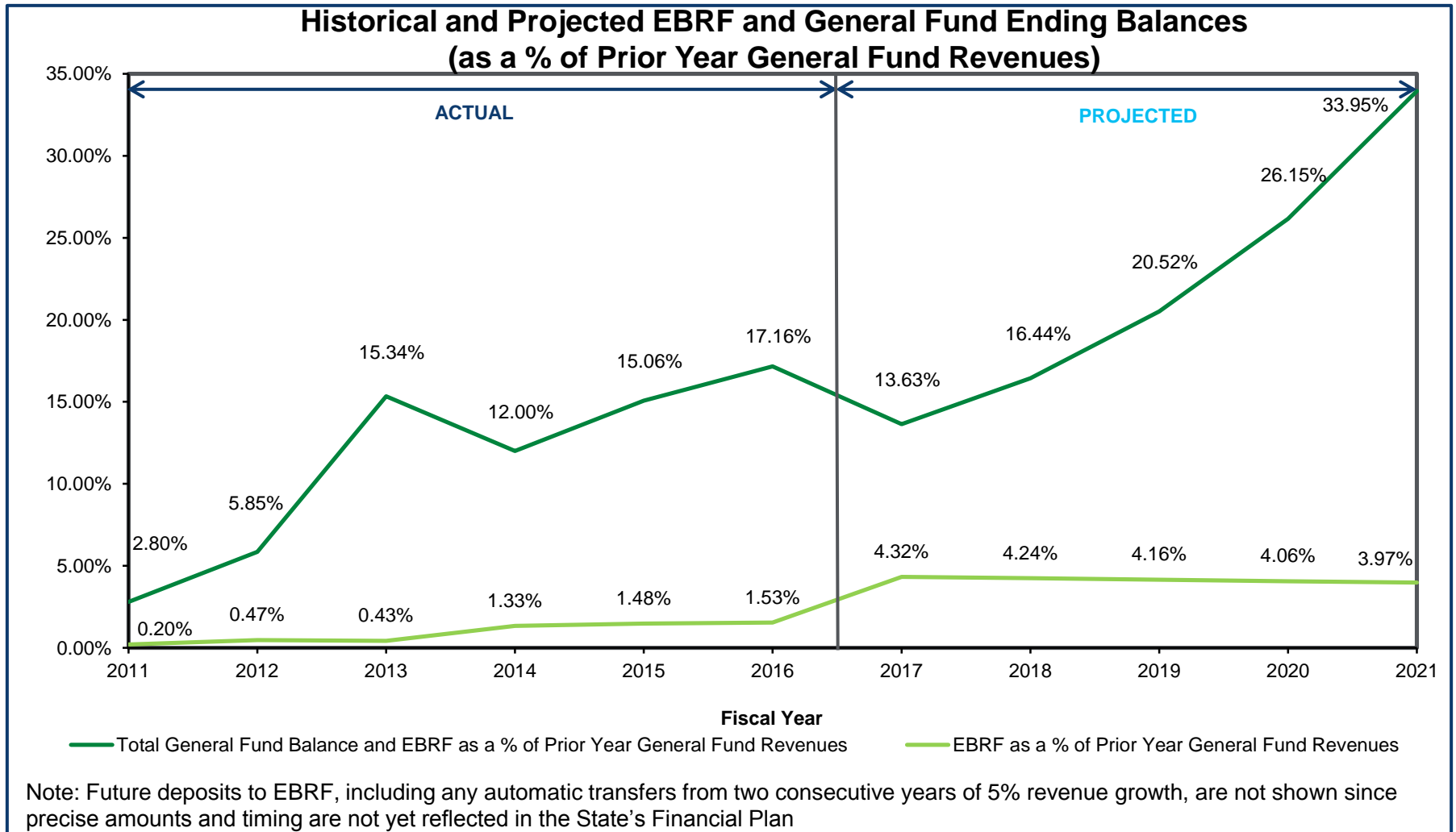
Strengthened Reserves and Liquidity

The State continues to make significant improvements in its reserves, ending fund balances and liquidity, with further improvements projected throughout the Financial Plan period

- **State's New Formal Reserve Policy:** On August 5th, 2016, Governor Ige issued Executive Memorandum 16-03 detailing two new reserve components
 - **Unassigned General Fund Carryover Balance:** The first objective is for the State to maintain a minimum unassigned General Fund carryover balance of 5% of the prior year's General Fund revenues
 - FY 2016 ending General Fund balance is estimated to be 15.6% of prior year's revenues and current Financial Plan projects an average ending balance of almost 17%
 - **Emergency and Budget Reserve Fund ("EBRF"):** The second objective is for the State to maintain a minimum EBRF balance of 10% of prior fiscal year's General Fund revenues
 - Estimated FY 2017 ending balance of \$305.7 million (4.3% of prior year's General Fund revenues)
 - Includes a \$201.4 million increase in FY 2017
 - \$150.0 million legislative appropriation
 - \$51.4 million reflects automatic transfer of 5% of General Fund balance statutorily required after two consecutive years of General Fund revenue growth exceeding 5%
- **Hawai'i Hurricane Relief Fund ("HHRF")**
 - Current balance of \$182.4 million
 - Recent adoption of State's Reserve Policy allows HHRF to no longer be included in the minimum Reserve Policy calculation
 - However, HHRF remains available as liquidity source if needed

Reserve Projections and Discussion

The State remains committed to increasing its reserves and has accelerated funding to achieve desired levels earlier



Financing Schedule, Investor Relations Links and Contact Information

Financing Schedule*

Date	Event
Monday, September 19 th	POS Posted Investor Presentation Posted
Wednesday, September 28 th	Retail Order Period
Thursday, September 29 th	Institutional Order Period
Thursday, October 13 th	Closing

*Preliminary, subject to change

For questions, please contact the following individuals:

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State of Hawai'i
Investor Relations

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E KOMO MAI

Welcome to the State of Hawai'i's Investor Relations information page. We hope that you find the information helpful and beneficial for your needs.

Type of Debt	Fitch	Moody's	S&P
Department of Budget & Finance (BF)			
General Obligation Bonds	AA	Aa1	AA+
Certificates of Participation	AA-	Aa3	AA-
Department of Hawaiian Home Lands (DHHL)			
Revenue Bonds	A	A1	N/A
Certificates of Participation	N/A	A1	N/A
Department of Transportation (DOT)			
Airport System Revenue Bonds	A	A1	A+
Airport Certificates of Participation	A-	A2	A
Harbor System Revenue Bonds	A+	A2	A+
Highway System Revenue Bonds	AA	Aa2	AA+
Department of Business, Economic Development & Tourism - Hawai'i Housing Finance & Development Corp. (HHFDC)			
Rental Housing System Revenue Bonds	N/A	A2	N/A
Single Family Revenue Bonds	AAA	Aaa	AA+
Board of Regents of the University of Hawai'i (UH)			
Revenue Bonds	AA	Aa2	A+



DIRECTOR OF FINANCE
Wesley K. Machida

STATE OF HAWAII

Bond Sales

- Current Offerings
- Bond Sales Calendar

State Financing Information

- Comprehensive Annual Financial Reports (CAFR)
- Council on Revenues Quarterly Revenue Forecasts
- Department of Business, Economic Development and Tourism - Economic Data
- Employees' Retirement System ERS
- Hawai'i Employer-Union Health Benefit Trust Fund EUTF
- Statements of the Debt Limit of the State of Hawai'i
- Statements of Total Outstanding Indebtedness of the State of Hawai'i
- Underwriter - Pre-Qualified List

Other Information

- EMMA - Electronic Municipal Market Access
- Governor's Press Releases

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Additional information may also be found at:
<http://investorrelations.hawaii.gov/> (pictured)